Passive Income: 2 (>8% Yielding) Real Estate Stocks That Pay Cash Each Month

Description

Here are two reasons you should invest in real estate:

- It acts as an inflation hedge as rent and property prices rise alongside inflation.
- Your retirement fund might exhaust, but passive income generated from rent will keep coming in.

Rising inflation has started taking a toll on monthly budgets. If investors learned anything from the 2009 financial crisis, it is this: always have a source of passive income when budgets are tight. The safest strategy is to diversify your passive income portfolio with dividend stocks, mutual funds, fixed income instruments, real estate, etc., so you are not completely shattered if one investment falters.

How to earn passive income from real estate without spending half a million

It's the Canadian dream to own a piece of real estate and retire as a landlord. The emergence of REITs made this dream achievable without spending your life savings. If you are closer to retirement, you can build up your passive income portfolio with bonds, mutual funds, dividend stocks, and REITs.

If you seek $3,000 a month in passive income, you need to invest $514,000 in a portfolio with an average annual yield of 7%. Instead of putting all of your money in one property, consider diversifying by investing around 10-15% in REITs and the rest in other passive income options.

Two real estate stocks with distribution yields of over 8%

Here are two REITs that offer you a more than 8% distribution yield. A $50,000 investment can earn you $4,000 a year through to your retirement.

True North Commercial REIT

True North Commercial REIT (TSX:TNT.UN) is a pure-play commercial property REIT with 47 properties across five provinces. The REIT enjoys cash flow stability because properties are rented to governments and high credit rated tenants. It has a 96% occupancy rate, with a weighted average lease term of 4.3 years.

True North Commercial is a beneficiary of the 40-year high inflation. Its rent renewal and net operating income increased by 5.5% and 7.2%, respectively, year-over-year in the second quarter.

The REIT's stock price has dipped over 17% from its average price of $7.2 as rising interest rates are easing property prices. It's taking this opportunity to acquire new properties and increase its cash flow from rent. This could further drive the stock price once the economic recovery begins.

By investing in this REIT right now, you can lock in a whopping 9.8% distribution yield and 17-20% capital growth. Thanks to its strong tenant base, it can withstand a recession without distribution cuts.

Timbercreek Financial

While this stock is not a REIT, it provides short-term funding to commercial REITs. **Timbercreek Financial** (TSX:TF) offers less than five-year duration mortgages for property repairs, redevelopment, or purchasing income-generating commercial property. Commercial real estate developers repay this mortgage by selling the asset at a higher price or using funds from their traditional, longer-term mortgages.

Timbercreek's mortgages are floating rates, which means it benefits from rising interest rates. When borrowing becomes expensive, companies borrow less. Hence, Timbercreek's second-quarter investment income increased 10% year-over-year, but the credit utilization rate reduced to 88.3% from 89.9% a year ago. The increase in interest offset the slowdown in volume, keeping its dividend intact. Hence, a 15% dip in Timbercreek Financial stock price during the April market downturn increased its dividend yield to a juicy 8.5%.

Real estate is not immune to a recession

Real estate is an asset class that offers an inflation hedge. But it's not immune to a recession. Real estate prices are determined by the health of the economy. Prices dip in a recession and grow in a recovery.

The above two real estate stocks have a distribution yield of more than 8%, but their payout ratio is above 90%, which is not sustainable if the recession deepens. They survived the pandemic without distribution cuts, thanks to a generous stimulus package, but the government may not always come to the rescue.

As small and mid-cap stocks, they carry risk. But an 8% premium is worth the risk, as a 50% distribution cut might reduce the yield to 4-5% which will still provide you with higher interest than fixed-income securities.

REITs might look risky, but they are a crucial part of a passive income portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:TF (Timbercreek Financial Corporation)
2. TSX:TNT.UN (True North Commercial Real Estate Investment Trust)

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